FISCAL NOTE

Bill #: SB0066 **Title:** Investment tax credit

Primary Sponsor: Kitzenberg, S **Status:** As Amended in Senate Committee - 2nd Amendments

Sponsor signature	Date	David Ewer, Budget Director	Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$35,023
Revenue:		
General Fund	$0	($494,200)
Net Impact on General Fund Balance:	$0	($529,223)

- ☐ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☐ Technical Concerns
- ☒ Significant Long-Term Impacts
- ☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. For tax years beginning after December 31, 2005, this bill would allow a credit against personal income tax or corporate license tax equal to 3% of qualified investment expenditures not to exceed 45% of the taxpayer's tax liability.
2. Businesses will be eligible for this credit only to the extent that they hire new employees. There are no restrictions on the amount of wages that must be paid to these new employees. The amount of investment eligible for the credit is limited to $100,000 for each new employee hired. For example, if a business invests $100,000 in new equipment and hires one person to operate that equipment the employer would be allowed a tax credit of $3,000 ($100,000 in new capital investment X 3% credit).
3. In addition, only small businesses with total assets of $5 million or less in the year in which the credit is claimed are eligible to receive the credit.
4. The state of Idaho has an investment credit similar to the one proposed in SB 66, except that the Idaho credit does not cap eligible investment at $100,000 for each new employee added; in Idaho the credit is available regardless of whether new employees are added or not. In Idaho, taxpayers are allowed an investment credit of 3% of qualified investments (the same property as in this bill) up to 50% of the taxpayer's liability, with a 7-year carryover period.

5. In Idaho, over the period 1997 to 2003, corporations claimed an annual average of $15.020 million in investment credits, and individuals claimed an annual average of $9.148 million in investment credits.
6. The 1997 economic census reports capital expenditures for selected industries. Reported capital expenditures in Montana were 36.2% of capital expenditures in Idaho.
7. If the Montana credit were patterned strictly after the Idaho credit, the ratio of investment tax credit claimed in Montana to that claimed in Idaho would be the same as the ratio of capital expenditures in Montana to capital expenditures in Idaho. Individuals would claim investment tax credits of $3.312 million each tax year (36.2% x $9.148 million) and corporations would claim credits of $5.437 million each tax year (36.2% x $15.020 million).
8. However, the additional employment-related restriction, and limiting the credit to small businesses with les than $5 million of assets, will act to significantly reduce the amount of credit claimed in Montana. For the purposes of this fiscal note, it is assumed that the employment-related and asset size restrictions on the credit will reduce the amount of credit claimed to one-tenth of the above amounts that would be claimed without the restriction. Individuals will claim investment tax credits of $331,000 each tax year (36.2% x $9.148 million x 10%) and corporations will claim tax credits of $544,000 each tax year (36.2% x $15.020 million x 10%).
9. Credits against individual income tax would first be claimed on returns for tax year 2006, filed during FY 2007. A full year's worth of credits would be claimed, reducing income tax revenue in FY 2007 by $331,000.
10. For 30% of corporations, returns for the first tax year when this credit could be claimed would be filed in May and June of 2007. For 70% of corporations, the first return when this credit could be claimed would not be filed until FY 2008. Corporation license tax revenue in FY 2007 would be reduced by $163,200 (30% x $544,000).
11. General fund revenue in FY 2007 would be reduced by $494,200 ($331,000 + $163,200).
12. Because of the significance of this credit, the Department of Revenue would require an additional 0.25 FTE for individual income tax compliance work and an additional 0.25 FTE for corporation license tax compliance work beginning in FY 2007. The additional cost in FY 2007 would be $35,023. No changes to the department's computer systems would be required.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
FTE		0.25
Expenditures:		
Personal Services		$15,595
Operating Expenses		$7,828
Equipment		$11,600
TOTAL		$35,023
Funding of Expenditures:		
General Fund (01)		$35,023
Revenues:		
General Fund (01)		($494,200)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)		($529,223)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
None.

LONG-RANGE IMPACTS:
FY 2008 is the first fiscal year when the full impact of the credit on corporation license tax would be felt. Credits claimed in FY 2008 and following years will be $875,000 ($331,000 against individual income tax and $544,000 against corporation license tax).